CONSOLIDATED CANADIAN FARADAY LIMITED

1971
ANNUAL
REPORT

CONSOLIDATED CANADIAN FARADAY LIMITED

Directors:	W. Clarke Campbell Ashton W. Johnston Jules Loeb Howard A. Masson John K. McCausland Randolph P. Mills George T. Smith Archibald B. Whitelaw
Officers:	Ashton W. Johnston, *Chairman of the Board* W. Clarke Campbell, *President* Jules Loeb, *Executive Vice-President* John R. Bridger, *Vice-President, Operations* William M. O'Shaughnessy, *Secretary-Treasurer*
Registrar and Transfer Agent:	Guaranty Trust Company of Canada Toronto, Montreal, Vancouver
Co-Transfer Agent:	Bank of Montreal Trust Company New York
Auditors:	Thorne, Gunn, Helliwell & Christenson Toronto
Mine Office:	Werner Lake, Ontario
Head Office:	Suite 1600, 100 Adelaide Street West, Toronto, Ontario

TO THE SHAREHOLDERS:

This annual report, which includes financial statements for the fiscal year ended December 31, 1971, is also an opportunity to review the operations and exploration activities through 1971 and to date.

Also enclosed are financial statements for Dumbarton Mines Limited and a summary of operations at the Dumbarton mine.

Werner Lake, Dumbarton

During the year operations at the Werner Lake mine and at the Dumbarton mine continued in a normal manner. It is gratifying to report that, for the second consecutive year, Dumbarton Mines received the National Safety Council Award for no lost time accidents. Full details on the Werner Lake division and on Dumbarton Mines Limited are provided in the enclosed reports of Mr. C. P. Moore.

Mr. Moore and his staffs at the Werner Lake Division and Dumbarton are to be commended in the handling of their operating responsibilities, in obtaining the level of production and grade from available reserves. There are some key cost factors, in addition to lower base and precious metal prices, which are beyond the company's control and which could have an important effect on the future of operations at both Dumbarton and the Werner Lake mine.

Increases in smelter tolls effective on all shipments received after February 1 of this year will reduce, if not eliminate, the operating profit potential of Werner Lake mine and certainly will mean that the Dumbarton operation will not generate profits after repayment of advances and charges to Faraday. These latter may not be met completely on the basis of the presently estimated ore reserves, charges and metal prices.

Consequently, it was considered prudent to allow for this contingency in the financial statements. Discovery of additional reserves or an increment in metal prices could change the situation. The ore potential of the Dumbarton property has not been completely explored. Two recent drill holes showed intersections of ore grade 100 feet below the 500-foot level. Exploration in this area is continuing.

Red Mountain Mine

During the year operations at the Red Mountain mine, in British Columbia, were gradually reduced as the last sources of economic reserves were mined out. As it was, the discovery of the "E" zone in late 1970 permitted milling operations to continue a year beyond the anticipated shut-down date.

Through 1971 no further sources of ore were found and the decision was taken to cease operations. Effective September 1, 1971, your company's interest in the Red Mountain assets was disposed of, realizing the sum of $326,000. As part of the purchase and sale transaction, Faraday acquired a 37½% interest in the mineral rights to the Red Mountain property, subject to the right of the purchaser to exhaust

the presently known ore bodies. Operations at the property were suspended in January, 1972.

An internationally-known firm of consultants has expressed interest in further exploration of the Red Mountain and surrounding properties, to test a geological theory as to possible ore deposition at depth. Such a program would be costly, involving deep diamond drilling of the lower horizons.

Uranium Interest

Recent developments in western world uranium markets are most encouraging relative to your company's uranium property at Bancroft. Events such as the major sale this year of Canadian uranium concentrates to Spain suggests the turnaround in uranium markets is closer at hand than many had realized.

As shareholders are aware, Federal Resources Corporation has exercised its option to acquire 51% interest in the Bancroft property. Federal is maintaining the mine and mill in such a condition that start-up time would be minimal following conclusion of contracts for sale of concentrates.

Natural Gas Interest

Late in 1971 your company concluded arrangements to acquire an important natural gas interest in southeastern Alberta, one that will return income from gas production by the latter part of 1972.

Faraday has acquired the right to an 11% interest in 120 sections in the Redcliffe area of southeastern Alberta by drilling 26 wells to the Milk River Sands and two deep test wells. The 26 wells have been drilled and the deep test wells are expected to be spudded in within the next two months.

A report dated January 6, 1971, from James A. Lewis Engineering Co. Ltd., petroleum reservoir analysts of Calgary, states that a preliminary analysis of marketable natural gas reserves in sections included in the Faraday acquisition shows 2,000 million cubic feet of proved marketable gas and an additional 2,000 million cubic feet of probable marketable gas reserves. These are preliminary estimates and are subject to change when a more detailed study is made, the report adds.

Your management believes this acquisition will give Faraday a valuable and broader base of involvement in Canada's primary resources. In view of plans to place on stream many of the wells in these sections by November 1, 1972, initial returns should be derived by the end of the 1972 fiscal year. Income would increase progressively in following years, with payout of investment occurring in the sixth year of production.

By the end of 1972, it is expected that 150 wells will be in production, increasing to 400 by the end of 1976.

Greenarctic Consortium

Faraday maintains an interest in the Greenarctic Consortium, the major joint exploration venture with other Canadian companies in northern areas of Greenland.

The Consortium has been conducting geophysical and magnetometer surveys over sections of its 30 million-acre reservations. As a result of work completed in 1970 and 1971, a vast amount of survey data has been accumulated and is still being analyzed.

This spring, at a general meeting of Consortium members in Calgary, approval was given to a summer program. Geological crews will further define target areas indicated in the 1970-71 work and, based on their reports, specific drilling targets for petroleum and base metals prospects will be established. Drilling could commence as early as December, 1972.

A representative from your company has been appointed to a committee to receive and review all data produced from these programs.

The recent petroleum finds in Ellesmere Island, in a region that lines up structurally with sections of the Consortium's holdings, has added new interest in the oil and gas potential of Greenland.

On behalf of the Board,

W. C. Campbell

W. Clarke Campbell,
President.

Toronto, Ontario
April 15, 1972

WERNER LAKE DIVISION

Production from the Werner Lake mine in 1971 totalled 99,731 tons of ore milled at a rate of 273 tons per calendar day.

The production of concentrate produced totalled 5,130.66 dry tons with a recoverable metal content of 1,147,606 pounds of nickel and 560,865 pounds of copper and, an estimated 218,138 ounces of platinum and 1,566.249 ounces of palladium.

MINING: During the year, blasthole stopes produced 91% of the ore, ore filled stopes 8% and cut and fill stopes 1%.

Several stopes were mucked out during the year, reducing the number of operating stopes to six. This has made it increasingly difficult to maintain the scheduled tonnage.

The development of a new longhole stope 3-151, with reserves estimated at 46,580 tons averaging 0.88% nickel, is currently being prepared for production.

Loss of the ore pass between 1200 and 1000 levels due to caving further curtailed production until the new ore pass by-pass was completed.

The decrease in mining costs is attributed to higher productivity as a result of blasthole stoping, as opposed to cut and fill mining which has been phased out of the operation as uneconomical.

Exploration: A large surface exploration program was carried out over part of the Gordon Lake fault zone in 1971. The program commenced with a geophysical survey conducted by Norman Paterson & Associates over two zones, one between section 16000E. and 19200E., and the other at the east end of the property. The program consisted of a combined magnetometer, EM-16 and I.P. survey.

The most promising anomaly located from the survey was 1500 feet north of the Gordon Lake fault in a parallel structure. Five holes drilled into the anomaly indicated 90,000 tons averaging 1.23% copper with a trace of nickel. No further drilling was done and the zone is open at both ends.

Other small geophysical anomalies were drilled but with discouraging results.

The drill program was then extended to include longstanding targets not covered by the geophysical program.

On section 8300E, where peridotite had been found previously, drilling indicated 1.7 million tons of peridotite averaging 0.46% nickel with 390,000 tons of this averaging 0.60% nickel.

The drill program amounted to 11,578 feet of drilling for a total of 23 holes.

ORE RESERVES: Reserves as of December 31, 1971, including dilution up to 50%, amounted to 170,421 tons of proven ore grading 0.85% nickel and 0.35% copper.

MILLING: The rod mill circuit operated at a rate of 30.3 T.P.H. to produce an average of 287 tons per operating day. The operating time for this circuit was 97.46% which is considered extremely good.

There was some improvement in metal recovery and concentrate grade over the previous year, as indicated in performance figures summarized below.

The general mechanical and physical condition of the mill has improved and this is reflected directly in fewer breakdowns.

The conversion of the pebble mill to a ball mill grind during the latter part of the year increased the overall output by 2.2 tons per hour.

Despite the drop in recovery using balls instead of pebbles, the increase of the grinding throughput for the rod mill is profitable from an economic point of view.

The tailings disposal dams were raised four feet by the addition of 6,600 tons of waste rock obtained from the Werner Lake and Dumbarton operations.

A new six-inch tailings disposal line was installed to direct tailings to the eastern extremities of the tailings disposal pond. Segregation of the coarse tailings solids in piles by using cyclones has slowed the filling of the disposal area.

Performance figures are tabulated below with comparative data for 1970 and 1969:—

	1971	1970	1969
Tons milled	99,731	105,504	177,726
Heads — nickel	0.83%	0.79%	0.82%
— copper	0.35%	0.35%	0.39%
Tails — nickel	0.20%	0.21%	0.20%
— copper	0.043%	0.047%	0.055%
Recoveries — nickel .	76.82%	75.21%	77.1%
— copper .	88.42%	87.44%	86.9%
Concentrate — nickel	12.44%	10.37%	8.84%
— copper	5.99%	5.40%	4.81%

COSTS: There were no capital expenditures in 1971. Despite increased labour and material costs the mine operating profit was $1.46 per dry ton of ore milled.

Comparative cost figures per ton not including head office expenditures are as follows:—

	1971	1970
Development	0.22	0.20
Mining	6.25	7.39
Milling charges	2.42	2.66
General expenses	2.87	2.87
Marketing expense	1.03	1.03
Total expenses/ton of ore milled ...	12.79	14.09

GENERAL: No serious interruption in the milling cycle is anticipated in the coming year. A new shell for the rod mill is now on the mine site and will be installed during the half-load season.

Further work on the tailings disposal dykes will be required next summer and it may be necessary to dispose of the tailings in new locations.

In order to offset the new smelting and refining increases, every effort is being made to bring in the new stoping area and to up-grade the operation.

Relations between the company and employees have remained normal.

It is gratifying to report that the mine rescue team from Consolidated Canadian Faraday Limited won the Red Lake District mine rescue competition for the second time in three years.

I wish to express my appreciation towards the mine staff and employees for their continued support throughout the year.

The co-operation and assistance of the directors and officers is also appreciated.

Respectfully submitted,

C. P. Moore, P.Eng.,
Manager, Werner Lake Division

DUMBARTON MINES LIMITED

Production from Dumbarton Mines Limited in 1971 totalled 306,063 tons of ore trucked, of which 12,568 tons remained on the stockpile at the end of the year and 299,480 tons were milled at a rate of 821 tons per calendar day.

Stockpiling of ore continued throughout the year supplementing haulage shortfalls during the spring thaw and on weekends in the summer months when trucking was confined to a five-day week.

The production of concentrate totalled 20,408.07 dry tons, with recoverable metal content of 3,711,128 pounds of nickel and 1,563,540 pounds of copper.

MINING: Emphasis was placed on completing the development of the west end of the mine. Stope preparation in 5-310 stope was started by undercutting the ore and developing the service raises.

The 500 East Haulageway was also extended and diamond drilling necessary to layout 5-510 Stope carried out from this drift.

An escapeway was driven from the 500 level to the 250 level to provide a second entrance to the bottom working level.

Development footages for 1971 involved: 3,918 feet of drifts and crosscuts; 1,197 feet of raises; 20,687 feet of underground diamond drilling; 1,605 feet of surface diamond drilling.

Production from sub level benching and stope preparation employing mobile longhole drills and L.H.D. equipment for material handling produced an average daily tonnage of 1,215 tons per operating day of crushed conveyed ore for trucking. Approximately 65% of this ore came from the west zone and the remaining 35% from the east zone.

Crushed and conveyed waste from development headings and stope preparation amounted to an average daily tonnage of 109 tons per operating day.

EXPLORATION: During 1971, an extensive diamond drilling program was carried out both on surface and underground.

A total of 1,605 feet of surface diamond drilling was completed to prove up the west pillar over the west ore body.

A further 20,687 feet of underground diamond drilling was conducted probing areas above and below the 500-foot level, in addition to outlining the ore limits between sub levels by standard cross pattern procedure.

The drilling below the 500 level has proved the persistence of sulphide mineralization down to the 900-foot horizon.

To date, nickel mineralization has been found to continue in sufficient quantities below the "D" zone. More drilling is required in this area and below the other known zones.

ORE RESERVES: The geometry of the ore bodies has changed from that of last year. More surface trenching and diamond drilling, combined with underground development, has permitted the placing of most, but not all, of the surface pillar of the west ore zone into the proven ore reserves. With a 20% dilution factor, the increase in the surface pillar reserves over the west orebody amounts to 120,138 tons, bringing the total proven reserves of this west pillar up to 196,845 tons grading 0.87% nickel.

The 5-310 ore body offset to the south at the west end of the mine was found to extend down to the 500-foot level. This increased the ore reserves of this particular block by approximately 47,400 tons. With 10% dilution, the block now contains 138,149 tons grading 0.88% nickel. Production from this ore body is scheduled for 1972.

The "C" Ore Zone to the east has changed in shape because of the recent drilling from the 500 east haulageway drift. The probable reserves of this block have been reduced by some 25,000 tons, but the grade sustained. The present reserves of this block, allowing for the 20% dilution factor, are now 185,180 tons averaging 0.72% nickel.

Ore reserves as of December 31, 1971, are calculated below, based on 9.4 tons/cubic foot at 10% and 20% dilution:—

	Tons	Nickel	Copper
Proven	890,272	0.88%	0.31%
Probable	185,180	0.72%	0.31%
	1,075,452	0.85%	0.31%

Proven reserves include 25,193 tons of broken ore underground and 12,522 tons of stockpiled ore.

MILLING: The mill operated at a rate of 29.0 T.P.H. on the rod mill circuit and 18.0 T.P.H. on the ball mill circuit to produce an average of 855 tons per operating day.

The operating time for these combined circuits was 95.34% which is considered favourable under the circumstances.

There is some improvement in metal recovery and concentrate grade over the previous year as indicated in the performance figures.

Performance figures for the year are tabulated below:—

	1971	1970	1969
Tons Milled	299,480	252,552	66,395
Heads — nickel	0.86%	0.86%	0.77%
— copper	0.32%	0.34%	0.26%
Tails — nickel	0.18%	0.19%	0.16%
— copper	0.034%	0.042%	0.034%
Concentrates			
— nickel	10.17%	9.17%	8.31%
— copper	4.25%	4.08%	3.10%
Recovery			
— nickel	80.2%	79.0%	80.5%
— copper	90.2%	88.7%	88.0%

COSTS: Excluding capital expenditures, the operation made a profit of $3.89 per dry ton of ore milled at the mine site.

A new ST-5A scooptram was also purchased and written off against the operation.

Comparative direct operating costs at the mine are as follows:

	1971	1970	1969
Development	0.96	0.96	1.87
Mining	1.77	1.91	1.67
Milling	2.08	2.17	1.72
General expense	0.78	0.86	1.06
Overhead charges (C.C.F.L.) .	0.87	1.01	1.36
Crushing	0.33	0.29	0.16
Conveying	0.13	0.14	0.14
Ore & waste transport	1.53	1.20	1.11
Marketing	1.33	1.31	1.62
Charges for use of mill	0.81	0.73	0.73
Total	10.59	10.38	11.44

GENERAL: Capital expenditures for the year totalled $4,523.45 which represents operating equipment.

Conversion from pebble mill grinding in October to the use of balls has substantially increased the output of the rod mill circuit besides decreasing maintenance costs in the screening plant. However, while the concentrate grade remained steady, there was a drop in recovery which we feel can be corrected.

Crysler & Lathem, Consulting Engineers/Resources Management, have been retained to draw up preliminary rehabilitation plans involved with the removal of the surface pillars over the orebodies and the diversion of Highway 315. The study is being conducted in conjunction with the Manitoba Department of Natural Resources.

During the year, the company and the employees continued to maintain a good relationship without a labour agreement.

I wish to express my appreciation to the staff and employees for their continued support throughout the year. The co-operation and assistance of the company directors and officers is also appreciated.

Respectfully submitted,

C. P. Moore, P.Eng.,
Manager, Dumbarton Mines Limited.

CONSOLIDATED CANADIAN FARADAY LIMITED
(Incorporated under the laws of Ontario)
and consolidated subsidiaries

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1971

(with comparative figures at December 31, 1970)

ASSETS

	1971	1970
CURRENT ASSETS		
Cash and short-term deposits	$ 544,971	$ 100,996
Accounts receivable	118,674	41,433
Outstanding settlements and concentrates, at estimated net realizable value, less advances	336,981	439,545
Supplies and other prepaid expenses	268,230	291,636
	1,268,856	873,610
ACCOUNT RECEIVABLE (note 2)	91,775	
INVESTMENTS (notes 2 and 5)	3,267,026	3,938,036
FIXED ASSETS (note 3)		
Buildings, plant and equipment, at cost	10,985,174	11,061,941
Less accumulated depreciation	9,745,900	9,292,280
	1,239,274	1,769,661
Mining claims, rights, properties and leases, at cost less accumulated depletion of $409,609	394,716	467,801
	1,633,990	2,237,462
OTHER ASSETS	145,687	200,448
	$ 6,407,334	$ 7,249,556

Approved by the Board:

W. C. CAMPBELL, Director.

A. W. JOHNSTON, Director.

LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Bank loan, secured by assignment of book debts		$ 160,000
Accounts payable and accrued liabilities	$ 218,519	223,195
	218,519	383,195
6½% MORTGAGE payable in instalments to September 1, 1976, less current portion included in accounts payable	97,701	118,095
	316,220	501,290

SHAREHOLDERS' EQUITY

	1971	1970
CAPITAL STOCK (note 4)		
Authorized — 5,000,000 shares of no par value		
Issued — 3,421,300 shares	6,459,747	6,459,747
CONTRIBUTED SURPLUS	1,506,061	1,506,061
	7,965,808	7,965,808
DEFICIT	(1,874,694)	(1,217,542)
	6,091,114	6,748,266
	$ 6,407,334	$ 7,249,556

Commitments and contingencies (note 8)

AUDITORS' REPORT

To the Shareholders of Consolidated Canadian Faraday Limited

We have examined the consolidated balance sheet of Consolidated Canadian Faraday Limited and consolidated subsidiaries as at December 31, 1971 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 9, 1972

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Production of concentrates	$ 1,377,358	$ 1,368,803
Rental and other income	310,568	396,719
	1,687,926	1,765,522
Operating expenses (including mortgage interest of $7,754 in 1971 and $9,600 in 1970)	1,350,122	1,621,381
	337,804	144,141
Depreciation	523,162	511,561
Amortization of deferred development expenditures	7,240	36,996
	530,402	548,557
Loss before undernoted items	(192,598)	(404,416)
Outside exploration	239,096	35,448
Provision for possible losses		
Non-consolidated subsidiaries		36,400
Investments (note 2(b))	152,372	164,000
Supplies and other assets		92,791
Cost of mining claims abandoned	73,086	
	464,554	328,639
Loss for the year	$ (657,152)	$ (733,055)
Loss per share	$(0.19)	$(0.21)

CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Deficit at beginning of year	$ (1,217,542)	$ (484,487)
Loss for the year	$ (657,152)	$ (733,055)
Deficit at end of year	$ (1,874,694)	$ (1,217,542)

CONSOLIDATED CANADIAN FARADAY LIMITED
and consolidated subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Source of funds		
Operations		
Depreciation, amortization and other items not involving current funds	$ 768,514	$ 754,634
Deduct loss for the year	(657,152)	(733,055)
	111,362	21,579
Realization on investment in Red Mountain Mines Limited, less non-current account receivable of $91,775	234,354	
Reduction of advances to other companies, net	179,792	
Reduction of mortgage receivable	30,652	16,316
Recovery of interest in power line	16,698	31,039
Sale of fixed assets	24,595	4,467
Sale of investments	12,462	
	609,915	73,401
Application of funds		
Advances to other companies, net		205,969
Additions to fixed assets	23,599	78,454
Purchase of investments	6,000	
Reduction of mortgage payable	20,394	19,315
Other		2,807
	49,993	306,545
Increase (decrease) in working capital	559,922	(233,144)
Working capital at beginning of year	490,415	723,559
Working capital at end of year	$1,050,337	$ 490,415

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1971

1. **BASIS OF CONSOLIDATION**

These financial statements consolidate the accounts of the following wholly-owned subsidiaries: N M C Securities Limited, Bancroft Holdings Limited, F M L Securities Limited, Waterfront Developments Limited, Farida, Inc., and Faramines, Inc.

Greenoaks Mines Limited (53.06% owned) for which audited financial statements are not available and which is not material, is not included in the consolidation. This company is not presently active and full provision has been made for the investment therein.

2. **INVESTMENTS**

(a) These may be summarzied as follows:

	Advances	Shares not in excess of cost	Provision for possible losses	Total	Quoted market value
Companies for which there is a quoted market value		$ 614,920		$ 614,920	$ 352,112
Companies for which there is no quoted market value		211,050		211,050	
Henrietta Mines Limited (convertible debentures)	$ 100,000			100,000	
				925,970	
Provision for possible loss on above investments			$ (573,250)	(573,250)	
				352,720	
Closely held companies:					
Prairie Potash Mines Limited		180,000		180,000	
Dumbarton Mines Limited	2,934,203	103	(200,000)	2,734,306	
	$3,034,203	$1,006,073	$ (773,250)	$3,267,026	$ 352,112
1970 totals	$4,193,675	$1,018,791	$ (1,274,430)	$3,938,036	$ 456,050

These include instances of large share holdings where quoted market values are not necessarily indicative of amounts which might be realized if the shares were to be sold.

Included in the quoted market value is $17,276 ($122,171 in 1970) representing escrowed shares which have been valued at 50% of the quoted market value of free shares.

(b) During 1971 the company disposed of its investment in Red Mountain Mines Limited of $979,681 for $326,129 of which $134,354 was received in 1971 the balance being receivable $100,000 in 1972 and $91,775 in 1973. The company retains a 37½% interest in the mining properties.

In prior years $779,680 had been provided against possible loss and the resulting excess provision of $126,128, has reduced the provision for possible losses otherwise required in the current year. Provision for loss provided in the current year is made up as follows:

Dumbarton Mines Limited	$ 200,000
Other investments	78,500
	278,500
Less	
Red Mountain Mines Limited, excess provision	126,128
	$ 152,372

3. **DEPRECIATION AND DEPLETION POLICY**

(a) Depreciation

Depreciation is being provided on a basis that will write off the net book value of the mine assets over the remaining life of the Werner Lake orebody and the net book value of the mill assets over the life of the Maskwa orebody.

(b) Depletion

It has not been common practice in Canada for mining companies to make provision for depletion of mining claims, rights, properties and leases and the company's present policy is to not make any provision in its accounts. Prior to amalgamation, one of the constituent companies did provide for depletion to the extent of $409,609, which is still carried in the accounts.

4. **CAPITAL STOCK**

Incentive option plans for key officers and personnel

Options on 163,750 shares at $1.50 per share have been granted and remain outstanding at December 31, 1971.

5. **DUMBARTON MINES LIMITED**

Pursuant to an agreement dated August 15, 1968 between Consolidated Canadian Faraday Limited and Maskwa Nickel Chrome Mines Limited each company owns 50% of the outstanding shares of Dumbarton. As required under the terms of the agreement Faraday prepared Maskwa's nickel-copper deposit for production at a rate of at least 700 tons of ore per day and extended its own mill to process such ore. It is provided that Faraday's advances for preparing the Maskwa mine for production and providing operating capital are to be repaid from the cash flow and operating profits thereafter, if any, will be divided equally between Maskwa and Faraday. Capital expenditures of $567,408 incurred by Faraday in extending the capacity of its mill are repayable through an amortization charge per ton of Maskwa ore treated.

On the basis of present operating costs and metal prices, an increase in smelter tolls effective February 1, 1972 may result in less than full recovery of advances from the mining and processing of the presently estimated ore reserves. Because of the current depression in the metal market a provision of $200,000 against possible non-recovery of advances has been made.

6. **INCOME TAXES**

The company has substantial depreciation, amortization and exploration expenditures available to offset taxable income of future years.

7. **OTHER STATUTORY INFORMATION**

Remuneration of directors and senior officers (as defined by The Business Corporations Act, 1970 of Ontario) amounts to $136,800 ($131,300 in 1970).

8. **COMMITMENTS AND CONTINGENCIES**

Pursuant to the terms of an agreement dated September 8, 1966, as amended, Federal Resources Corporation, an unaffiliated company, has undertaken to organize and finance by December 31, 1975 an entity to acquire and operate the company's Bancroft (uranium) property. This commitment is accelerated in the event that a market for the product from the property is earlier developed. The company will retain a 49% interest. Under the terms of the agreement Federal has assumed responsibility for maintenance of the mine property.

The company has pledged its book debts as collateral for its guarantee of a bank loan to Dumbarton Mines Limited in the amount $123,000 (1970, $500,000).

Since the balance sheet date, the company entered into an agreement providing for the drilling at its expense of 28 wells in the Redcliffe area of southeastern Alberta, at a cost estimated at $475,000.

DUMBARTON MINES LIMITED
(Incorporated as a private company under the laws of Manitoba)

BALANCE SHEET — DECEMBER 31, 1971

(with comparative figures at December 31, 1970)

ASSETS

	1971	1970
CURRENT ASSETS		
Cash		$ 1,926
Accounts receivable	$ 9,726	12,464
Mining tax recoverable		3,475
Outstanding settlements and concentrates, at estimated net realizable value less advances	1,199,654	1,094,709
Ore stockpile, at cost	44,122	44,376
Supplies and other prepaid expenses	139,408	126,176
	1,392,910	1,283,126
FIXED ASSETS		
Buildings and equipment, at cost	1,580,607	1,503,899
Less accumulated depreciation	677,688	360,190
	902,919	1,143,709
PREPRODUCTION EXPENDITURES	1,254,124	1,254,124
Less accumulated amortization	548,349	300,341
	705,775	953,783
	$3,001,604	$3,380,618

LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Bank overdraft	$ 60,158	$ 32,852
Bank loan, secured by assignment of book debts	123,000	500,000
Accounts payable and accrued liabilities	79,567	70,501
Mining tax payable	1,581	
Advances from Consolidated Canadian Faraday Limited (note 2)	2,934,203	3,113,995
Total liabilities	3,198,509	3,717,348

CAPITAL STOCK AND DEFICIT

	1971	1970
CAPITAL STOCK		
Authorized and issued — 20,000 shares without par value	205	205
DEFICIT	(197,110)	(336,935)
	(196,905)	(336,730)
	$3,001,604	$3,380,618

Approved by the Board:

W. C. CAMPBELL, Director.

D. R. LOCHHEAD, Director.

STATEMENT OF INCOME

Year Ended December 31, 1971

(with comparative figures for 1970)

	1971	1970
Production of concentrates	$4,140,248	$3,455,958
Operating expenses other than below	3,209,166	2,808,529
Manitoba mining tax	11,870	3,845
	3,221,036	2,812,374
	919,212	643,584
Interest on advances from Consolidated Canadian Faraday Limited	213,881	267,597
Income before undernoted items	705,331	375,987
Depreciation	317,498	297,746
Amortization of preproduction expenditures	248,008	248,387
	565,506	546,133
Net income (loss) for the year	$ 139,825	$ (170,146)

STATEMENT OF DEFICIT

Year Ended December 31, 1971

(with comparative figures for 1970)

	1971	1970
Deficit at beginning of year		
As previously reported	$ (346,440)	$ (166,789)
Adjustment of prior year's mining tax (note 3)	9,505	
As restated	(336,935)	(166,789)
Net income (loss) for the year	139,825	(170,146)
Deficit at end of year	$ (197,110)	$ (336,935)

AUDITORS' REPORT

To the Shareholders of Dumbarton Mines Limited

We have examined the balance sheet of Dumbarton Mines Limited as at December 31, 1971 and the statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 9, 1972.

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended December 31, 1971

(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS		
Operations		
Net income (loss) for the year	$ 139,825	$ (170,146)
Depreciation and amortization of preproduction expenditures not involving current funds	565,506	546,133
	705,331	375,987
APPLICATION OF FUNDS		
Additions to fixed assets	76,708	19,925
Preproduction expenditures		19,480
	76,708	39,405
Increase in working capital position	628,623	336,582
Working capital deficiency at beginning of year		
As previously reported	(2,443,727)	(2,770,804)
Adjustment of prior year's mining tax (note 3)	9,505	
As restated	(2,434,222)	(2,770,804)
Working capital deficiency at end of year	$ (1,805,599)	$ (2,434,222)

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 1971

1. FORMATION OF COMPANY

   The company was incorporated pursuant to an agreement between Consolidated Canadian Faraday Limited (Faraday) and Maskwa Nickel Chrome Mines Limited (Maskwa) whereby:

   (i) Maskwa transferred to Dumbarton, under license, the five mining claims covering the known mineral deposit.

   (ii) Costs of preparing the deposit for mining and amortization of the cost of Faraday extending its mill at its Werner Lake Mine to enable it to treat the ore produced are to be paid from the cash flow resulting from the sale of concentrates.

   (iii) Faraday and Maskwa who are the equal shareholders of the company are then to participate equally in operating profits.

2. ADVANCES FROM CONSOLIDATED CANADIAN FARADAY LIMITED

   Interest is accrued on advances at Faraday's bank rate. As at December 31, 1971, the advances include interest of $156,502 ($468,784 in 1970).

3. ADJUSTMENT OF PRIOR YEAR'S MINING TAX

   During 1971 the company was re-assessed for mining taxes for 1970. Accordingly, comparative figures for 1970 in the accompanying financial statements have been restated from the amounts previously reported to reflect the reduction of $9,505.

4. OTHER STATUTORY INFORMATION

   Remuneration of directors and senior officers

	1971	1970
Directors and officers	Nil	Nil
Other employees	$75,935	$71,624

CONSOLIDATED CANADIAN FARADAY LIMITED

1971
ANNUAL
REPORT

Printed in Canada

DUMBARTON MINES LIMITED

STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 1971

with comparative results for 6 months ended June 30, 1970
(subject to year-end adjustments and audit)

		1971		1970
Production of concentrates		$2,131,004		$1,732,659
Operating expenses		1,527,756		1,344,959
		603,248		387,700
Interest on advances from Consolidated Canadian Faraday Limited		107,730		133,329
		495,518		254,371
Depreciation	158,800		147,400	
Amortization of pre-production expenses	127,640	286,440	122,100	269,500
Income (loss) for the period		$ 209,078		$ (15,129)

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six months ended June 30, 1971

	1971	1970
Source of funds:		
Operations:		
Income (loss) for the period	$ 209,078	$ (15,129)
Add depreciation and amortization of preproduction expenditures not involving current funds	286,440	269,500
	495,518	254,371
Application of funds:		
Additions to fixed assets	76,707	4,258
Increase in working capital position	418,811	250,113
Working capital deficiency at beginning of year	2,443,728	2,770,804
Working capital deficiency at end of period	$2,024,917	$2,520,691

CONSOLIDATED CANADIAN FARADAY LIMITED

INTERIM REPORT

FOR THE SIX MONTHS ENDED JUNE 30, 1971

To the Shareholders:

Included with this interim report are statements of income and source and application of funds for both Consolidated Canadian Faraday and Dumbarton Mines Limited.

Operations at the Werner Lake mine and the Dumbarton mine proceeded normally during the period, with improvements in operating income recorded at both properties.

Mining and milling operations at Red Mountain are expected to terminate in October unless additional ore is located. Operating profits in these final months have so far been most satisfactory.

The directors are pleased that Faraday's outside exploration activities are gradually expanding again. Shareholders will note in the income statement that exploration outlay in the first half was markedly higher, reflecting not only Faraday's involvement in the Greenarctic project but renewed investigations in the Werner Lake area, outside the mine property.

The Incentive Stock Option Plan and options allocated to date thereunder, as described in the proxy statement and information circular for the annual meeting, were overwhelmingly approved by the shareholders and application is pending to the American Stock Exchange to list the shares covered by the Plan.

In this connection, the question was raised regarding the precise duties of officers of the company who have other professional involvements beyond services performed for the company. The president, W. Clarke Campbell, and Mr. A.B. Whitelaw, a director and member of the executive committee, are both engaged in private practice with their respective legal firms.

As president, Mr. Campbell has chief responsibility for direction of the operating staffs – and liaison between these staffs and head office – of the mines in Ontario, Manitoba and British Columbia. In the execution of this responsibility, he travels frequently to the various properties.

Mr. Whitelaw has been and continues to be extensively involved in efforts for the company, relative to the Bancroft uranium property and other uranium prospects being examined. These efforts have centred on developing and maintaining European and North American contacts for financing and marketing. More recently, his efforts have also been on behalf of the Greenland mineral project which would, if present preliminary surveys are successful, require large capital participation by Faraday and other partners in the consortium.

On behalf of the board,

W. Clarke Campbell,
President

Toronto, Ontario,
August 9, 1971.

CONSOLIDATED CANADIAN FARADAY LIMITED AND ITS CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME SIX MONTHS ENDED JUNE 30, 1971

with comparative results for 6 months ended June 30, 1970

(subject to year-end adjustments and audit)

	1971	1970
Gross revenue	$863,653	$880,945
Operating expenses	656,541	709,924
	207,112	171,021
Deduct:		
Depreciation and amortization of deferred development	269,275	279,325
Net income before outside exploration charges	(62,163)	(108,304)
Outside exploration	82,801	4,368
Net income (loss) for period	$(144,964)	$(112,672)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Six months ended June 30 1971	1970
Source of funds:		
Operations		
Depreciation, amortization and other items not involving current funds	$274,419	$279,325
Deduct loss for the period	144,964	112,672
	129,455	166,653
Recovery of advances to Dumbarton Mines	157,876	–
Sale of investments	12,437	–
Disposal of fixed assets	26,405	–
Other	17,900	37,596
	344,073	204,249
Application of funds:		
Advances to Dumbarton Mines	–	278,864
Purchase of investments	6,000	–
Additions to fixed assets	14,242	45,262
Other	7,896	9,225
	28,138	333,351
Increase (decrease) in working capital position	315,935	(129,102)
Working capital at beginning of year	490,415	723,559
Working capital at end of period	$806,350	$594,457